

THE  
**University of Vermont**  
HEALTH NETWORK

**To:** The Honorable Owen Foster, Chair, Green Mountain Care Board

**From:** Rick Vincent, CFO, University of Vermont Health Network

**Date:** February 1, 2023

**Subject:** Fiscal Year 2022 Actual-to-Budget Narrative

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**University of Vermont Medical Center**

<b>NPR</b>	<b>Total</b>	<b>% over/under</b>
FY 2022 Approved Budget	\$ 1,508,506,476	
Utilization	\$ 38,391,201	2.5%
Reimbursement/Payer Mix	\$ (75,234,540)	-5.0%
Bad Debt/Free Care	\$ 7,596,157	0.5%
Physician Acq/Trans	\$ -	0.0%
Pharmacy	\$ -	0.0%
Changes in Accounting	\$ -	0.0%
Changes in DSH	\$ 9,031,156	0.6%
GME Reimbursement Change	\$ 22,500,000	1.5%
Administrative Write-Offs	\$ (13,326,300)	-0.9%
Other (please label)		
FY 2022 Actual Results	\$ 1,497,464,148	-0.7%

**NPR, FPP & Health Reform Payments**

\$ Variance: (\$11M)

% Variance: (0.7%)

The main driver for NPR was due to unfavorable gross revenue payer mix compared to budget, and lower Medicare payment rates than budgeted.

An additional GME payment and additional DSH payment in September together were a significant offset to the lower revenues.

There were significantly higher pharmaceutical revenues, driven by higher utilization and higher cost drugs.

The struggle discharging inpatients to post acute settings continues to have a significant impact on operations, resulting in higher length of stays (LOS) for the hospital. This has resulted in patients being in the hospital after they have exhausted their DRG payment, which results in lower collection rates and increased expenses.

#### Other Operating Revenue

\$ Variance: \$114.6M

% Variance: 53.6%

The majority of the favorable variance was due to Specialty Pharmacy generating a \$50.1M positive variance, COVID-19 related stimulus payments from HHS \$30.3M, cyberattack insurance claim settlement \$29.1M, FEMA funding \$2.3M, and payer incentive premium revenue of \$2.1M

Additionally, institutional service revenue was favorable \$1.4M, due to an increase in client lab services.

<b>Expenses</b>	<b>Amount</b>	<b>% over/under</b>
<b>FY 2022 Approved Budget</b>	<b>\$ 1,662,751,679</b>	
Salaries	\$ 13,058,298	0.8%
Fringe Benefits	\$ (13,815,344)	-0.8%
Physician	\$ (1,247,660)	-0.1%
Contract Staffing	\$ 105,674,978	6.4%
Supplies	\$ 5,176,447	0.3%
Drugs	\$ 50,779,051	3.1%
Facilities	\$ (1,679,516)	-0.1%
Software Related	\$ 3,051,683	0.2%
Depreciation	\$ (1,979,802)	-0.1%
Interest	\$ (424,933)	0.0%
Health Care Provider Tax	\$ (522,692)	0.0%
Purchased Services	\$ 10,712,278	0.6%
Other	\$ 10,492,930	0.6%
Locum tenans (MDs)	\$ 6,328,422	0.4%
	\$ -	0.0%
<b>FY 2022 Actual Results</b>	<b>\$ 1,848,355,820</b>	<b>11.2%</b>

#### Staff Salaries

\$ Variance: (\$118.7M)

% Variance: (21.5%)

Actual salary cost inflation was much greater than what was budgeted in FY2022. Because of national workforce challenges many positions needed to be filled with contracted labor and salary adjustments needed to be made to employed staff.

There was a significant reliance on contracted travelers and their pay rate continue to increase over budgeted and past year actual levels, due to record high inpatient census levels. This contributed \$105.7M to the unfavorable variance. The number of travelers exceeded 400 for six months of the fiscal year, ending the year at 453 in September. Average hourly rate peaked in April at \$158, before ending the fiscal year at \$138.

Staff stabilization and retention payments and union ratification payments also contributed to the unfavorable variance.

#### Physician Salaries

\$ Variance: (\$5.1M)

% Variance: (2.5%)

The UVM Health Network Medical Group had a significant increase in the utilization of locum tenens due to workforce shortages.

#### Fringe Benefits

\$ Variance: \$13.8M

% Variance: 7.2%

The favorability was due to lower health insurance claims experience \$8.9M, non-physician fringe primarily driven by higher than budgeted contracted employees utilized to backfill vacant positions which resulting in lower member counts participating in our benefit plan as contracted employees usually get their health benefits through contracted agency they work for.

#### All Other Operating Expenses

\$ Variance: (\$75.6M)

% Variance: (10.6%)

Med/surg supply expense continued with higher than budgeted COVID-19 supplies and lab expenses, as well as COVID-19 related inventory adjustments.

Retail pharmacy expense overage due to specialty volumes coming in much higher than budget, with the corresponding revenues flowing through other revenue as mentioned above.

Pharmacy expense was driven by favorable volumes in inpatient pharmacy of 9.0%, as well as unfavorable rate due to higher usage of more expensive drugs.

Purchased services: Pushing the Epic Wave 2 go-live out to FY 2022 there was a timing misalignment between the budget and original planned go-live date contributed the unfavorable variance of approximately \$5M.

Other expenses was another area where cost inflation above budget was a contributing factor Two areas over budget were freight charges driven by higher than budgeted shipping costs and small equipment purchases.

#### Net Operating Margin

\$ Variance: (\$82.1M)

% Variance: (138.3%)

The negative variance was caused by a combination of increased utilization of travelers and locums due to high inpatient census and continued workforce shortages, along with an unfavorable payer mix driving down our NPR. The high specialty pharmacy volumes were a significant positive revenue offset to NPR. The negative margin variance would have been much greater had it not been for one-time COVID-19 relief funds and cyberattack insurance proceeds.

#### Non-Operating Revenue

\$ Variance: (\$175.1M)

% Variance: (834%)

Variance is primarily related to poor investment market performance with close to a (\$142.3M) hit to investment related lines.

#### Total Margin

\$ Variance: (\$257.2M)

% Variance: (320%)

Negative operating margin variance of (\$82M) coupled with outlined non-ops above resulted in the unfavorable total margin variance.

### **Central Vermont Medical Center**

<b>NPR</b>	<b>Total</b>	<b>% over/under</b>
<b>FY 2022 Approved Budget</b>	<b>\$ 250,954,727</b>	
Utilization	\$ (5,237,637)	-2.1%
Reimbursement/Payer Mix	\$ (7,031,632)	-2.8%
Bad Debt/Free Care	\$ 1,048,498	0.4%
Physician Acq/Trans	\$ -	0.0%
Pharmacy	\$ -	0.0%
Changes in Accounting	\$ -	0.0%
Changes in DSH	\$ 1,909,546	0.8%
Administrative Write-Offs	\$ (1,256,882)	-0.5%
		0.0%
<b>FY 2022 Actual Results</b>	<b>\$ 240,386,620</b>	<b>-4.2%</b>

#### **Net Patient Revenue (NPR), Fixed Prospective Payments (FPP) & Health Reform Payments**

\$ Variance: (\$10.6M)

% Variance: (4.2%)

The FY 2022 total NPR, FPP and OneCare Vermont revenue was unfavorable by (\$10.6M) or (4.2%) when compared to the FY 2022 budget, primarily due to the continuing impact of COVID-19 on operations. Bad debt and charity care combined were \$1M under budget, keeping in line with reduced gross patient revenue. In addition to decreased utilization, there was also a continuing erosion in payer mix and collection rates. There was an accounting change, in relation to our self-insured health plan which changed where those expenses were credited on the financial statements. This change created the appearance of an unfavorable variance in NPR but is offset by a favorable variance in the benefit expense, in total these accounting changes netted to zero, a one-time additional payment for Disproportionate Share payments for FY 2022 received in September resulted in a favorable impact to overall net revenues.

The struggle discharging inpatients to post acute settings continues to have a significant impact on operations, resulting in higher length of stays (LOS) for the hospital. This has resulted in patients being in the hospital after they have exhausted their DRG payment, which results in lower collection rates and increased expenses.

#### **Other Operating Revenue**

\$ Variance: \$5.3M

% Variance: 30.2%

Other revenue was over budget by \$5.3M, primarily due to federal, state, and other

miscellaneous COVID-19 funding received and recognized in FY 2022, totaling \$5.4 million. Other contract pharmacy 340B revenue ended the fiscal year under budget by \$1.4M.

Expenses	Amount	% over/under
FY 2022 Approved Budget	\$ 264,316,173	
Salaries	\$ 333,900	0.1%
Fringe Benefits	\$ (6,749,458)	-2.6%
Physician	\$ 1,741,559	0.7%
Contract Staffing	\$ 20,994,141	7.9%
Supplies	\$ 1,238,180	0.5%
Drugs	\$ (1,277,837)	-0.5%
Facilities	\$ (441,791)	-0.2%
Software Related	\$ (2,759,759)	-1.0%
Depreciation	\$ (702,430)	-0.3%
Interest	\$ 48,119	0.0%
Health Care Provider Tax	\$ (592,141)	-0.2%
Purchased Services	\$ (1,582,179)	-0.6%
Other	\$ 4,720,054	1.8%
Locum tenans (MDs)	\$ 917,794	0.3%
FY 2022 Actual Results	\$ 280,204,325	6.0%

Actual salary cost inflation was much greater than what was budgeted in FY2022. Because of national workforce challenges many positions needed to be filled with contracted labor and salary adjustments needed to be made to employed staff.

#### Staff Salaries

\$ Variance: \$334K  
% Variance: 0.1%

Non-MD salaries were over budget by \$334K, or 0.1% in total. This related to employed FTEs being favorable to budget but was offset by unfavorable higher per employed FTE costs than budgeted, in total there was a small favorable variance

#### Fringe Benefits

\$ Variance: \$6.7M  
% Variance: 2.6%

Fringe benefits were under budget by \$6.7M (18.4%) for the fiscal year. As noted under the net revenue section of this report, the favorable variance relates to the accounting change in our self-insurance health plan.

#### Physician Salaries

\$ Variance: \$1.7M  
% Variance: 0.7%

Physician fees were over budget by \$1.7M or 0.7%, mainly due to Hospitalists, ER Physicians and Inpatient Psych.

Contract Staffing

\$ Variance:	\$21M
% Variance:	7.9%

CVMC had 76 traveler FTEs with an associated expense of \$23.8M (\$21M higher than budget) for an average cost per FTE of \$314K, a 37% rate increase from previous years. The roles of the travelers were needed to care for bedside patient care at our Woodridge Nursing and Rehabilitation facility. Additional travelers were used for outpatient services – imaging, lab and respiratory therapies.

Non-Salary Expenses

\$ Variance:	\$1.3M
% Variance:	1.3%

Supplies were over budget and drug expenses were under budget by 0.5% and -.5% respectively, almost netting to zero. Software expense was under budget by \$2.8M mostly due to a change in where the expenses are being reported, partially leading to an increase in the other expenses of \$4.7M. Depreciation is under budget by \$702K due to lower capital spending. Health care provider tax was \$592K or 0.2% under budget due to less than budgeted NPR. Purchased services were under budget by 0.6% mainly due to IT and Anesthesia coverage.

Net Operating Margin

\$ Variance:	(\$21.2M)
% Variance:	-522%

Operating revenues were \$5.3M unfavorable to budget, operating expenses were \$15.9M unfavorable driven by the factors mentioned above.

Non-Operating Revenue

\$ Variance:	(\$18.9M)
% Variance:	-237%

Non-operating revenues were unfavorable to budget by \$18.9M due to unfavorable market returns and funding status in pension and other investment activity.

Total Margin

\$ Variance:	(\$40.1M)
% Variance:	-333%

Operating revenues were \$5.3M unfavorable to budget, operating expenses were \$15.9M unfavorable, and non-operating revenues were unfavorable by \$18.9M.

### **Porter Hospital**

Overall, Porter Medical Center's (PMC) Total Revenue was above budget for FY 2022 due to above budget volume, favorable payer mix, and receipt of COVID-19 relief funding offset by below budget Contract 340B Pharmacy Revenue.

PMC is designated as a Critical Access Hospital (CAH), as a result it is somewhat insulated from drastic revenue downturns and upturns due to the Medicare cost reimbursement methodology for CAHs.

PMC experienced above budget expenses in the payment rate and number of contracted travelers for patient care, specifically in the areas of nursing, laboratory, and X-ray technicians. Contracted travelers were at a high of 45 FTEs in March 2022 with 6 months during the year with contracted travelers over 35 FTEs versus a budget of 6 contracted traveler FTEs per month.

Net Operating Margin was \$1.9M unfavorable at \$3.2M or 37% below budget.

<b>NPR</b>	<b>Total</b>	<b>% over/under</b>
<b>FY 2022 Approved Budget</b>	<b>\$ 94,168,035</b>	
Utilization	\$ 4,695,859	5.0%
Reimbursement/Payer Mix	\$ 1,415,904	1.5%
Bad Debt/Free Care	\$ 167,156	0.2%
Physician Acq/Trans	\$ -	0.0%
Changes in Accounting	\$ -	0.0%
Changes in DSH	\$ 350,701	0.4%
Administrative Write-Offs	\$ (2,085,888)	-2.2%
	\$ -	0.0%
	\$ -	0.0%
<b>FY 2022 Actual Results</b>	<b>\$ 98,711,768</b>	<b>4.8%</b>

### **NPR, FPP & OneCare Vermont Payments**

\$ Variance: \$4.45M

% Variance: 4.8%

The FY 2022 Total NPR + FPP + OneCare Vermont revenue was favorable by \$4.45M or 5% when compared to the FY 2022 budget, primarily due to above budget volumes and higher DSH revenue. Bad debt and charity care are minimally above budget with combined \$167K or 0.2% over budget. Our administrative write-off (denial write-offs) in FY 2022 were above budget due to Epic implementation, specifically timely filing, lack of authorization, medical necessity and



the winding down Meditech (prior system) resulting in above budget administrative write-offs.

### **Other Operating Revenue**

\$ Variance: \$351K

% Variance: 6%

Other Operating Revenue was favorable to budget by \$351K, primarily due to federal, state, and other miscellaneous COVID-19 funding received and recognized in FY 2022, offset by the under budget Other Contract Pharmacy 340B revenue.

<b>Expenses</b>	<b>Amount</b>	<b>% over/under</b>
FY 2022 Approved Budget	\$ 95,215,788	
Salaries	\$ 8,856,015	9.3%
Fringe Benefits	\$ (2,638,937)	-2.8%
Physician	\$ 379,347	0.4%
Contract Staffing	\$ -	0.0%
Supplies	\$ 952,477	1.0%
Drugs	\$ 798,839	0.8%
Facilities	\$ 150,167	0.2%
Software Related	\$ (252,889)	-0.3%
Depreciation	\$ (203,443)	-0.2%
Interest	\$ 8,054	0.0%
Health Care Provider Tax	\$ 416,795	0.4%
Purchased Services	\$ (254,891)	-0.3%
Other	\$ (1,690,283)	-1.8%
Locum tenans (MDs)	\$ 304,915	0.3%
	\$ -	0.0%
FY 2022 Actual Results	\$ 102,041,955	7.2%

### **Salaries**

\$ Variance: \$361K

% Variance: 0.4%

PMC's favorable Salaries variance was due to net staff salary savings from unfilled budgeted positions.

### **Fringe Benefits**

\$ Variance: \$2.6M

% Variance: 2.8%

PMC had favorable Fringe Benefit budget variance due to the savings on the UVMHN Self-funded Health and Dental insurance of (\$2.2M) of which partial savings was due to the use of

contracted travelers versus employees (see Contract Staffing below). In addition, Fringe Benefits are below budget by \$209K pension savings due to a change in accounting regulations. Finally, unemployment expenses were \$175K below budget due to a decrease in actual rates due to Covid-19 modified rates.

### **Physicians and Locum Tenens**

\$ Variance: (\$684K)

% Variance: (0.7%)

Physician costs were over budget due to use of Locum services for our Women's Health practice in order to keep access available during a period when we had an open Physician position. In addition, PMC incurred a higher than budget physicians salary expense for urgent need stipends to ensure adequate provider coverage.

### **Contract Staffing**

\$ Variance: (\$9.2M)

% Variance: (9.7%)

PMC experienced a spike in both the rate and number of contracted travelers due to workforce challenges. This contributed \$9.2M to the unfavorable expense variance. The number of travelers increased from a low of 20 FTEs in November 2021 to 45 by March 2022 with 6 months of the year with contracted travelers over 35 FTEs. Contracted travelers were notably in the areas of nursing, laboratory, and X-ray technicians.

### **Depreciation**

\$ Variance: \$203K

% Variance: 0.2%

Depreciation expense was slightly favorable to budget due to savings from the timing of capital expenditures.

### **Purchased Services**

\$ Variance: \$255K

% Variance: 0.3%

Purchased Services favorable variance is due to a decrease in external services related to audit, consulting and IT services (\$1.6M) by utilizing the services provided by UVM Health Network offset by increased outside lab costs (\$1.4M) for Covid-19 testing.

### **All Other Operating Expenses**

\$ Variance: (\$383K)

Variance: (0.4%)

All Other Operating Expenses reflected a net unfavorable result directly correlated to volumes increases (medical supplies and pharmaceuticals) of \$1.8M as well as supply chain cost increases. This increase was offset by savings in: UVMHN Shared Services expenses of \$768K due to lower than budgeted UVMHN expenses, Software \$253K (shared services transition), and staff travel/education costs \$345K. Provider tax is higher than budget by \$415K due to higher revenue. In addition, other actuals expenses are under budget by \$360K associated with individually immaterial variances in line items such as recruitment, insurance, and misc. supplies.

### **Net Operating Margin**

\$ Variance: (\$1.9M)

% Variance: (37.4%)

Net Operating Margin performance was unfavorable to budgeted expectations driven primarily by increased contracted traveler costs offset by revenue volumes (see more detailed analysis above).

### **Non-Operating Revenue**

\$ Variance: (\$5.7M)

% Variance: (4.5%)

Non-Operating revenue was unfavorable to budget primarily due to negative investment market returns and the pension reclassification from operating to non-operating (\$209K).

### **Total Margin**

\$ Variance: (\$7.6M)

% Variance: (127.8%)

Total margin was below budgeted expectations due to the net of the favorable Operating revenues of \$4.9M or 5%, unfavorable operating expenses of \$6.8M or 7%, and unfavorable non-operating revenues of \$5.7M or 95.3%.